

Lack of Income Verification in HUD-Assisted Housing: The Need to Eliminate Overpayments

THURSDAY, MAY 25, 2000

HOUSE OF REPRESENTATIVES,
COMMITTEE ON THE BUDGET,
TASK FORCE ON HOUSING AND INFRASTRUCTURE,
Washington, DC.

The Task Force met, pursuant to call, at 10:05 a.m. in room 210, Cannon House Office Building, Hon. John Sununu (chairman of the Task Force) presiding.

Mr. SUNUNU. Good morning. I would like to start by thanking Congressman Bentsen and all the members of the Task Force for participating in this hearing and supporting the oversight hearings for which we are responsible in both housing and infrastructure. But also I would like to recognize and thank the Special Agents that are here today, Raymond Carolan and Emil Schuster of the U.S. Department of Housing's IG Office; Deputy Secretary Saul Ramirez, who has testified here before on behalf of the Department of Housing and Urban Development; and Ms. Sheila Crowley of the National Low Income Housing Coalition.

I know you all have busy schedules. I appreciate your taking the time out to testify.

Since its inception, the Section 8 housing assistance program has helped millions of American families find affordable housing. Through the Section 8 voucher and certificate programs, HUD provides rental subsidies which help over 1.4 million households in the United States.

The subsidies are reserved only for very low-income tenants and are based on the amount of income the tenant earns. Typically, the tenant pays the rent capped at 30 percent of income, and HUD pays the remaining rental cost of the apartment.

Obviously, determining a tenant's true income level is essential for the programs to operate not just efficiently, but fairly as well, because as we all know, the waiting list for these positions can be quite long.

Unfortunately, there has been a long-standing problem at the Department of Housing and Urban Development in assuring that subsidy payments are made in the right amount to those eligible low-income tenants.

Both the GAO and the HUD Inspector General's Office have determined that the systems in place "do not provide reasonable assurance that subsidies paid under the programs are valid and correctly calculated, considering tenant incomes and contract rents."

Since 1996, the HUD Inspector General has reported that HUD's housing subsidy programs do experience improper payments when beneficiaries' income status changes and they do not notify housing authorities to adjust their benefits.

HUD itself has estimated that approximately \$935 million in excessive payments have been made in its Section 8 housing program for 1998. Had this \$935 million been used to assist low-income tenants, it is estimated that approximately 150,000 families could have been assisted with their housing needs. So this is not simply a budgetary problem, but it is also a fairness problem.

We want to make sure within HUD that resources are made available to assist those that need help. Again, the waiting lists for many of these programs are quite long.

In 1999, HUD developed an approach to use a large-scale computer-matching income verification process that would compare IRS and Social Security information and identify tenants who had underreported their income. In the first quarter of the year 2000, HUD used its new matching methodology to identify approximately 280,000 tenant households with income discrepancies. HUD then prepared letters to inform tenants of their responsibility to disclose their proper income and tax data to the Public Housing Authority, as well as notifications to the housing authorities themselves.

Although the Department had originally planned to mail notification letters to all of these tenants with income discrepancies, it was decided to engage in a pilot program in Washington, DC. In February, about 900 letters were sent to tenants, which were not received well. As a result, the program was temporarily suspended.

Our goal today is to attempt to shed light on the nature of the problems that were encountered early on with the 1995 problem, understand what efforts the Department of Housing and Urban Development has made to solve the problems, and try to better understand the scope of the problem that the Inspector General's Office has been evaluating.

We will hear testimony from the Office of Inspector General, explaining their understanding of the problem and talking about several real-world examples of how and why overpayments are made.

In addition, we will hear testimony from the controller at HUD, who has responsibility for monitoring these finances, and hear about what steps HUD has taken to bring in the concerns of tenants and try to shed additional light on the tenants' perspective in these attempts to reduce the significant level of overpayments.

I would like to recognize Congressman Bentsen for any remarks he might have.

[The prepared statement of Mr. Sununu follows:]

PREPARED STATEMENT OF HON. JOHN E. SUNUNU, A REPRESENTATIVE IN CONGRESS
FROM THE STATE OF NEW HAMPSHIRE

Good morning. I'd like to start by thanking Congressman Bentsen and all the members of the Task Force for being here this morning. I'd also like to recognize and thank Special Agents Raymond Carolan and Emil Schuster of the U.S. Department of Housing and Urban Development's Office of Inspector General, Deputy Secretary Saul Ramirez, U.S. Department of Housing and Urban Development, and Ms. Sheila Crowley of the National Low Income Housing Coalition. I appreciate your taking the time out of your schedules to be here this morning.

Since its inception the Section 8 housing assistance program has helped millions of American families to find affordable housing. Through the Section 8 voucher and

certificate programs HUD provides rental subsidies which help over 1.4 million households in the United States. These subsidies are reserved only for very low-income tenants and are based on the amount of income the tenant makes. Typically, the tenant pays a rent capped at 30 percent of income, and HUD pays the remaining rental cost of the apartment.

Clearly, determining a tenant's true income level is essential for the programs to operate properly and fairly. Unfortunately, there has been a longstanding problem at the Department of Housing in assuring that subsidy payments are made in the right amount to eligible low income tenants. Both the General Accounting Office and the HUD Inspector General's Office have determined that the systems in place now do not "provide reasonable assurance" that "subsidies paid under these programs are valid and correctly calculated considering tenant incomes and contract rents." Since 1996, the HUD IG has reported that HUD's housing subsidy programs experience improper payments when beneficiaries income status changes and they do not notify housing authorities to adjust their benefits. In fact, HUD itself has estimated that \$935 million in excessive payments have been made in its Section 8 Housing program for 1998. Had this \$935 million been used to assist eligible low income tenants, it is estimated that an additional 150,000 families could have been helped.

In 1999 HUD developed an approach to use a large-scale Computer Matching Income Verification Process to compare IRS and Social Security information and identify tenants who had under-reported their income. In the first quarter of 2000, HUD used its new matching methodology to identify 280,000 tenant households with income discrepancies. HUD then prepared letters to inform tenants of their responsibility to disclose their proper income and tax data to their Public Housing Authorities, as well as notifications to the PHA's themselves. Although the Department had originally planned to issue notification letters to all tenants with income discrepancies, it was decided instead to use the Washington, DC, Housing Authority as a preliminary test area. In February 2000, letters were sent to approximately 900 tenants. It is my understanding that these letters were received rather negatively, and as a result the Department has halted its income verification program.

The purpose of this hearing will be to attempt to shed light on the nature of the problems in the income verification program, and the effort of the Department to solve these problems. The Task Force will hear testimony from two investigators from the HUD Inspector General Office explaining their understanding of the problem and relating real world examples of how and why the overpayments are made. In addition, we will hear testimony from the Controller at HUD who has responsibility for monitoring the finances at HUD. Finally, we will hear what steps HUD has taken and plans to take in the future, along with testimony from an advocate for tenants to bring light to their perspective on recent attempts to bring down these overpayments.

I would now like to recognize Congressman Bentsen for any opening remarks he may have.

Mr. BENTSEN. Thank you, Chairman Sununu. I want to thank our panelists for being here, both the individuals from the IG's Office, as well as my fellow Texan, the Deputy Secretary, who, prior to becoming Deputy Secretary of HUD, had real power as the county judge of Webb County, Texas, and gave that up to come here to Washington; and also Ms. Sheila Crowley from the National Low Income Housing Coalition.

Let me say, this Task Force of the Committee on the Budget is charged with investigating areas where there is either fraud, waste, or abuse in government programs. I think that there is strong bipartisan support among all members of the committee, as well as all Members of the House, that fraud and abuse in government programs with taxpayers' money should not be tolerated.

That being said, I think we also—and as a member of the Committee on Banking and Financial Services, which has jurisdiction over HUD, we also must not lose sight of the fact that we do have a low-income housing crisis in America; that as strong as our economy has been, we still have tens of thousands, or more, Americans who are on waiting lists trying to get into assisted homes, assisted

living, including in my district in the greater Houston area. It is something that we should be focused on.

Additionally, as we have found through hearings on the Committee on Banking and Financial Services, while there is great concern, and I have great concern with respect to overpayments, we also have concerns about underpayments.

This is a broad problem and a complicated program that has probably been somewhat more complicated with the passage of H.R. 2 a couple of years ago, which I was involved in drafting with Mr. Lazio and Mr. Frank and others, that changed some of the income rules and targeting rules and others in the Section 8 program. So HUD is going through a transition with respect to that.

Finally, I am eager to hear not only about the findings of the IGs and the methodology and how we might address this, but also about the income verification program that HUD has instituted, both in terms of HUD, as to how that is going; but also from the IG, your perspective on that as well, and how that might be made even better, given that it appears to be the first time this is even done.

Finally, I think we must not lose sight of the fact that the clientele that we are talking about here are among the poorest of Americans, that there are many who are struggling their way up the rungs of the ladder; and we must be cautious in our diligence to root out fraud and abuse not to lose sight of the fact that many of these individuals may not share the technical expertise that those of us in the Washington realm do—and we should be cautious in that regard.

Mr. Chairman, thank you for holding this hearing. I look forward to participating in it. I yield back the balance of my time.

Mr. SUNUNU. Thank you, Mr. Bentsen.

I would like to begin with the testimony from the Office of Inspector General, and once we have completed that testimony, I would ask that you gentlemen literally just slide down to one side of the table so we can have all of the testimony presented from Ms. Crowley and Mr. Ramirez before we get to questions.

Then if the four of you can participate in the question-and-answer session, we will have questions from both me and Mr. Bentsen, but hopefully in a somewhat informal way; and you should feel free during that question period to make any points that you think are relevant, even if the questions are not necessarily directed to you, because our interest is in presenting as much information here as we can in what is, unfortunately, a short amount of time.

Mr. Schuster, I would appreciate your testimony. I yield to you for whatever time you might need.

STATEMENT OF EMIL J. SCHUSTER, SPECIAL AGENT IN CHARGE, SOUTHEAST/CARIBBEAN FIELD OFFICE OF THE HUD INSPECTOR GENERAL

Mr. SCHUSTER. Thank you. Good morning.

Chairman Sununu and Congressman Bentsen, I appreciate the opportunity to be here before you this morning to provide a little bit of insight on what the Office of Investigations for the Office of Inspector General of HUD does as far as tenant fraud.

I ask that my full written statement be included in the record.

Mr. SUNUNU. Without objection.

Mr. SCHUSTER. My knowledge of this issue is based on the 9½ years I have been in charge of the HUD Office of Inspector General, Office of Investigations Southeast/Caribbean District in Atlanta, Georgia.

We, like many in the IG community, have limited resources. Because of that, it is essential to set strict priorities in their use. These priorities are affected in large measure by the prosecutorial guidelines set by the various U.S. Attorneys.

There is generally a minimum dollar threshold on fraud charges in each judicial district. For example, it might be \$10,000, or it could be as high in some districts as \$100,000. In addition, each district might have their own set of priorities, so the priorities in, for example, Miami may be far different than in Memphis, Tennessee.

Nonetheless, there are deviations from these minimums when circumstances are so heinous that criminal prosecution is called for. Because of these limitations, our investigations leading to the prosecution of tenant fraud in the Southeast District have averaged approximately only five per year.

To further clarify our addressing of tenant fraud, I would like to use an interview question I pose to recent college graduates who are applying for Special Agent positions.

I explain to the person that a complaint is received and that a Section 8 tenant, identified as Mary Doe, is defrauding HUD by not disclosing income she is receiving from a part-time job. You conduct an investigation and find the following: Mary Doe has been working part-time at McDonald's for the past year. She has three elementary schoolchildren.

From the interviews, it appears that she is simply trying to earn some extra money to buy new school clothes, shoes, et cetera, for her children. She has not disclosed this additional income, and thereby has defrauded HUD out of \$1,000 this past year.

How do we handle this?

The answer I look for is that this is not a prosecutable criminal case. Rather, this is the type of situation that we would refer back to the Housing Authority and/or the HUD program staff, recommending that they take some type of appropriate administrative action.

The purpose of this question is to show that not every fraudulent act warrants criminal prosecution. Judgment is needed, especially with limited resources.

Now, having identified the type of case that would generally not be pursued, I would like to describe several specific cases where we have undertaken investigations, alone or with other law enforcement agencies, that have led to successful prosecutions. We will often work with the Department of Health and Human Services IG, or Secret Service, or any of the various other IGs in looking at fraud.

Example number one is Nashville, TN, an IRS employee we prosecuted for falsifying her income in order to obtain Section 8 benefits. She failed to report her income she earned as an IRS employee. Her fraud resulted in a loss to HUD of over \$15,000.

Example number two, Memphis, TN. A Memphis Housing Authority employee conspired with the Shelby County Corrections Officer to create a fictitious Section 8 landlord and place the property into the Section 8 program. The corrections officer became the tenant, receiving the Section 8 assistance. The officer would then receive the Section 8 checks and forge the fictitious owner's signature, and they would split the money. They took in about \$11,000 of HUD funds.

In Campbellsville, KY, during a Safe Home operation—and this is our operation for violent crime in public and assisted housing; primarily we deal a lot with drug cases—we were investigating a situation with two people selling drugs in the Housing Authority developments.

During the investigation, we discovered that one of the individuals was a Section 8 landlord who was renting to another individual, who was another person who was selling drugs. During the search warrant, we found that the landlord was living actually in the residence with the tenant.

Now, this only amounted to fraud of just \$1,070, but the Assistant United States Attorney [AUSA] decided to include this in the prosecution with the drug counts because of the heinousness of this situation.

In Atlanta, GA, the defendant created false birth certificates in order to obtain four different Section 8 subsidized apartments under fictitious names in Tennessee and Georgia. In addition, she received food stamps and welfare in each of the units. The loss to the government was over \$15,000. This was one of the situations where we worked with the Department of Agriculture IG and the HHS IG.

Then in Broward County, FL, 35 individuals were prosecuted for fraudulently obtaining over \$300,000 in Section 8 subsidies. The tenants were Nigerians, or spouses of Nigerians, who were in this country illegally or whose status had expired. The defendants were able to create false employers and have their verification of income forms sent to the post office boxes that they owned or were owned by Nigerian-owned businesses.

Twelve of the defendants were employees of the Florida Department of Human Rehabilitation Services, HRS, which is a basic State entity which handles welfare payments in the State of Florida.

Another side to this is, these people were making in the area of \$35,000 to \$40,000 per year as salary from the State of Florida. In addition, they were also receiving food stamps, AFDC, and educational grants that they were not entitled to receive.

There are certain common threads that run through these prosecutable-type cases. A subject who is a city, State, or Federal employee will spark the interest of an Assistant United States Attorney. A subject who is defrauding other government programs, like food stamps or AFDC, likewise is seen as a good target. Another good subject would be a drug dealer, obviously.

Of course, there are some whose actions are so flagrant that a jury would not hesitate to convict: for example, a subject who owns several rental houses, yet still claims Section 8 assistance.

Another important aspect of this case is the deterrent value prosecution will bring. For example, if there is some notoriety attached to the case, the media will run a story which has a positive impact on making an applicant think twice about lying. These are all things that we consider before opening an investigation.

We continue to receive allegations from a number of sources, and as I said, undertake approximately five investigations per year. Over the 9-plus years I have been in Atlanta, I have seen the same type of allegations occur and recur, understating income or failing to report jobs for the purpose of receiving a subsidized unit or a larger subsidy from HUD.

As both resources and prosecutorial appeal exist, we investigate the most egregious cases. Any remaining allegations are referred to the Housing Authority and/or HUD program staff for administrative action, as appropriate.

Mr. Chairman, that concludes my remarks. I would be happy to answer any questions following the testimony.

Mr. SUNUNU. Thank you very much, Mr. Schuster.

[The prepared statement of Mr. Schuster follows:]

PREPARED STATEMENT OF EMIL J. SCHUSTER, SPECIAL AGENT IN CHARGE, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT, OFFICE OF THE INSPECTOR GENERAL, SOUTHEAST/CARIBBEAN DISTRICT

Chairman Sununu and members of the Housing and Infrastructure Task Force, I appreciate the opportunity to appear before you today to provide insight on the investigation of tenant fraud as it relates to the Department of Housing and Urban Development, Office of Inspector General. I ask that my full written statement be included in the record.

My knowledge of this issue is based on the 9½ years I have been the Special Agent in Charge of the HUD Office of Inspector General, Office of Investigations Southeast/Caribbean District in Atlanta, GA. We, like many in the IG community, have limited resources. Because of that it is essential to set strict priorities on their use.

These priorities are affected in large measure by the Prosecutorial guidelines set by the various U.S. Attorneys. There is generally a minimum dollar threshold on fraud schemes for each judicial district. It may range from \$10,000 to as much as \$100,000. In addition, jurisdictions have different priorities—Miami's are not the same as Memphis. Nonetheless, there are deviations from these minimums when circumstances are so heinous that criminal prosecution is called for. Because of these limitations our investigations leading to the prosecution of tenant fraud in the Southeast District has averaged approximately five cases per year.

To further clarify our addressing of tenant fraud, I would like to use an interview question I pose to recent college graduates who are applying for Special Agent positions in our office. I explain to the person that a complaint is received and that a Section 8 tenant identified as Mary Doe is defrauding HUD by not disclosing income that she is receiving from a part time job. You conduct an investigation and find the following: Mary Doe has been working part time at McDonalds for the past year. She has three elementary school children. From interviews it appears she is simply trying to earn some extra money to buy new school clothes, shoes, etc., for her children. She has not disclosed this additional income and thereby has defrauded HUD out of \$1,000.00 this past year. How do you handle this? The answer that I look for is that this is not a prosecutable criminal case. Rather this is the type of situation that we refer back to the Housing Authority and/or HUD program office recommending that they take appropriate action.

The purpose of this question is to show that not every fraudulent act warrants criminal prosecution. Judgment is needed, especially with limited resources.

Now having identified the type case that would generally not be pursued, I would like to describe several specific cases where we have undertaken investigations, alone or with other law enforcement agencies, that have led to successful prosecutions. The reasons, I believe, are quite evident.

Nashville, TN—Evelyn Haggen Hodgins an IRS employee, was prosecuted for falsifying her income in order to obtain Section 8 rental assistance. Ms. Hodgins had

failed to report the income she earned from the IRS. Her fraud resulted in a loss to HUD of over \$15,000.

Memphis, TN—A Memphis Housing Authority employee Donna Dillihunt, conspired with a Shelby County Corrections Officer Pamela Allen to create a fictitious Section 8 landlord and place a property in the Section 8 program. The Corrections Officer became the tenant receiving the Section 8 assistance. The officer would receive the Section 8 checks and forge the fictitious owner's signature. The two defendants received over \$11,000 in HUD funds.

Campbellsville, KY—During a Safe Home Operation evidence was obtained that Kelly Lee Shipp and Patricia May Wooley were selling drugs in the Campbellsville Public Housing Developments. During the investigation it was discovered that Mr. Shipp was a Section 8 landlord who was renting to Ms. Wooley. Mr. Shipp had moved in with Ms. Wooley after he had certified that he did not reside there. The loss to HUD was only \$1,070. But due to the other criminal activities of the pair, the fraud charge was included in their prosecution.

Atlanta, GA—The defendant Marilyn Arinzee, created false birth certificates in order to obtain four different Section 8 subsidized apartments under fictitious names in Tennessee and Georgia. In addition, she received food stamps and welfare at each of the units. The loss to the Government was over \$15,000.

Broward County, FL—Thirty Five individuals were prosecuted for fraudulently obtaining over \$300,000 in Section 8 subsidies. The tenants were Nigerians or the spouses of Nigerians, who were in this country illegally or whose status had expired. The Defendants were able to create false employers and have their Verification of Income forms sent to post office boxes that they owned or were owned by Nigerian owned businesses. Twelve of the Defendants were employees of the Florida Department of Human Rehabilitation Services (HRS). HRS is the State Agency that administers welfare payments in Florida. In addition, the defendants also received food stamps, AFDC, and educational grants that they were not entitled to receive.

There are certain common threads that run through these prosecutable type cases. A subject who is a City, State, or Federal employee will spark the interest of an Assistant United States Attorney. A subject who is defrauding other Government programs like food stamps or AFDC likewise is seen as a good target. Another good subject would be a drug dealer. And, of course, there are some whose actions are so flagrant that a jury would not hesitate to convict. For example, a subject who owns several rental houses yet still claims Section 8 assistance. Another important aspect of these cases is the deterrent value prosecution will bring. For example if there is some notoriety attached to the case the media will run a story which has a positive impact on making an applicant think twice about lying. These are all things that we consider before opening an investigation.

We continue to receive allegations from a number of sources and as I said undertake approximately five investigations per year. Over the 9 plus years I have been in Atlanta I have seen the same type of allegations occur and recur—understating income or failing to report jobs for the purpose of receiving a subsidized unit or a larger subsidy from HUD. As both resources and prosecutorial appeal exist, we investigate the most egregious cases. Any remaining allegations are referred to the Housing Authority and/or HUD program staff for administrative action, as appropriate.

Mr. Chairman, that concludes my remarks, and I would be happy to answer any questions you may have.

Mr. SUNUNU. Mr. Carolan.

STATEMENT OF RAYMOND A. CAROLAN, SPECIAL AGENT IN CHARGE, NEW ENGLAND OFFICE OF THE HUD INSPECTOR GENERAL

Mr. CAROLAN. Good morning, Mr. Chairman, Mr. Bentsen, and members of the committee. I am pleased to appear before you today and highlight a few examples of our work in the subsidy fraud area.

I would ask that my comments be entered into the record.

Mr. SUNUNU. Without objection.

Mr. CAROLAN. Mr. Chairman, I am a career Office of Inspector General employee. I have been with the Office of Inspector General for 28 years. I have been the Special Agent in charge of the New England District for the last 18 years. I believe that my district,

New England, was the first to present subsidy fraud cases for prosecution to the United States attorney in the mid-1970's.

The investigation of these cases today is basically the same as it was then. The cases usually fall into four major categories: a tenant's failure to report income or assets; a tenant's failure to accurately report total family composition, which usually results in an underreporting of income; conspiracy between tenants and management; and conspiracy involving subsidized tenants and property owners.

Today, I would like to present especially egregious examples of subsidy fraud stemming primarily from the last two categories, the conspiracy ones.

My first example involves a 262-unit fully subsidized cooperative housing complex in the Charlestown section of the City of Boston. In cooperative housing, a tenant board of directors oversees all aspects of the property management. In this case, tenants were also employed by the management company at the site office to administer the annual income recertifications and to oversee all of the daily operations.

Our investigation revealed widespread fraud and conspiracy between some of the tenants and the management office employees. It also included the board members. The widespread fraud at this complex required the cooperation of the office staff, members of the board, in order to perpetuate the scheme.

The investigation indicated that employment verifications that were supposed to be independent were false and forged. Tenants and management staff conspired to report half of actual income and conspired to hide the occupancy of employed family members. There was a pattern of this. They also conspired to falsify family composition in order to qualify for larger unit sizes.

An example: Section 8 tenants Barbara and Michael failed to report total family income, resulting in overpayments of approximately \$14,000. Michael was related to a project manager. The Section 8 forms failed to accurately reflect Michael's total income generated from his employment at a hospital, and failed to reflect any income generated by Barbara, the spouse, through her employment at the same hospital.

The Section 8 forms for 1988 reflected the total family income as \$9,000, when, in actuality, in 1988 income for the gross wages for the entire family was over \$57,000.

In addition, the Section 8 forms incorrectly listed their family composition as consisting of Michael, Barbara, and their son, Cory. When asked by our agents who Cory was, Barbara indicated that Cory was her dog, that she has no children. She could not explain how her dog appeared on the Section 8 forms as her child.

Listing a child on the Section 8 forms would entitle the Section 8 tenants to a deduction which is formulated into the total rent calculation. In addition, the bedroom size allocated to a Section 8 tenant family is based upon total family composition. In this case, the family qualified for a two-bedroom apartment. There were a lot of these cases at this particular site, where families were overhoused as a result of falsification of family composition.

Once these schemes were crafted, the employment verification forms were falsified and formed in order to fit each scheme. There

was a pattern of this particular type of fraudulent activity at varying levels for many of the tenants at this complex.

When we attempted to verify the accuracy of their employment forms, the employees reported that the income information was inaccurate and that the signatures were all forged. The investigation involved the use of Federal grand juries and Federal search warrants.

Twenty-two tenants at the site, including four board members, were federally indicted for false statements, conspiracies, and other related charges. All defendants either pled or were found guilty in 1993. Monetary losses representing subsidy overpayments related to these indictments were approximately \$245,000.

Following our investigation, the management company was required to repay HUD over \$366,000, and was removed. A new management company was required to recertify all residents at this complex. This company's recertification process resulted in a \$400,000 annual reduction in Section 8 subsidies the next year.

My second example involves a conspiracy between a property owner and a subsidized tenant. This case was not prosecuted due to evidence and statute of limitations issues. It is, however, I believe a good example of this type of scheme.

Our investigation indicated that a property owner transferred ownership of a single-family property to a straw buyer just prior to the application to the Public Housing Authority for participation in the Section 8 program. What he did was reversed his role from a property owner to a tenant.

From 1981 to 1995, subsidy was paid to the straw buyer in the amount of over \$74,000. The scheme was disclosed when IRS began to investigate the straw buyer for failure to report rental income from the property to the IRS. What happened was the IRS received a 1099 from the Housing Authority disclosing rental income to that straw buyer.

In response to the IRS, the straw buyer stated that her ownership of the subsidized property was "in name only," that the rental income reflected on the form 1099 "was arranged" without her knowledge and was sent in—these payments were sent by the Housing Authority, the Public Housing Authority, to a post office box rented in her name without her knowledge.

Furthermore, she stated that the subsidy checks were also cashed without her knowledge or her endorsement on the checks. An administrative process to recoup this overpaid subsidy is ongoing.

So even though this case was not prosecuted for various reasons, the administrative process is ongoing, and I heard recently that what this straw buyer is doing is turning the deed back to the Housing Authority for that property, so the Housing Authority will be the owner, in an attempt to recoup the \$74,000.

Some other examples that parallel income issues. An investigation was initiated to determine whether Jose and Rose, public housing tenants in Manchester, NH, failed to report their income. This was a joint investigation with the Social Security Administration Office of Inspector General.

The only income claimed on their public housing applications was Social Security and SSI, disability benefits. Both Rosa and Jose

worked at a variety of jobs during the period of overpayment, which was July, 1995, to November, 1996. None of this income was reported on the applications.

Jose was indicted on December 9, 1998, on four counts of making false statements, three to HUD and one to the Social Security Administration, and two counts of misusing Social Security numbers. Jose pled guilty. A Federal judge sentenced him on June 30, 1999, to time served, which was 6 months. He got 3 years probation and an assessment of \$200, and was ordered to make repayments in the form of restitution in the amount of \$25,000.

In another case, this particular Section 8 tenant received Section 8 assistance in Lynn and Lexington, MA, from January 1987 until August 1998. During the period, they only claimed benefits received from Aid to Families with Dependent Children. They also held occasional part-time jobs.

Penny, using another name and another Social Security number of a deceased uncle, worked at a computer company from December, 1989, to July 1989, and did not report this income. On September 13, 1999, a criminal complaint was filed in U.S. District Court in Massachusetts, charging Penny with violating 18 U.S.C. 641, conversion of government funds.

On January 5, 2000, Penny waived her right to indictment and pled guilty to one count, information. The Federal district judge sentenced Penny to 6 months' confinement in a halfway house, 2 years' probation, a \$100 special assessment, and \$37,000 in restitution to the Federal Government.

Mr. Chairman, that concludes my remarks. I would be pleased to answer any questions you may have following the other witnesses's testimony.

Mr. SUNUNU. Thank you very much, Mr. Carolan.

[The prepared statement of Mr. Carolan follows:]

PREPARED STATEMENT OF RAYMOND A. CAROLAN, SPECIAL AGENT IN CHARGE, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT, OFFICE OF THE INSPECTOR GENERAL, NEW ENGLAND DISTRICT

Mr. Chairman and members of the committee. I am pleased to appear before you today to highlight a few examples of our work in the subsidy fraud area. I am a career Office of the Inspector General employee with over 28 years of service. I have been the Special Agent in Charge of the New England District for the last 18 years.

I believe that my District was the first to present subsidy fraud cases for prosecution to the United States Attorney in the mid 1970's. The investigation of these cases today is basically the same as it was then. The cases usually fall into four major categories:

- Tenants failure to report income and/or assets.
- Tenants failure to accurately report total family composition resulting in understated total family income.
- Conspiracy between tenants and management.
- Conspiracy involving a subsidized tenant and a property owner.

Today I would like to present especially egregious examples of subsidy fraud stemming primarily from the last two categories.

CONSPIRACY BETWEEN TENANTS AND MANAGEMENT

My first example involves a 262 unit, fully subsidized, cooperative housing complex in the Charlestown section of the City of Boston. In cooperative housing, a tenant Board of Directors oversees all aspects of the property management. In this case, tenants were also employed by the management company at the site office to administer the annual income recertifications and to supervise daily operations.

Our investigation revealed widespread fraud and conspiracy between the tenants and the management office employees.

The widespread fraud at this complex required the cooperation of the office staff and members of the tenant Board of Directors in order to perpetuate the scheme. The investigation indicated that employment verifications that were supposed to be independent were falsified and forged.

Tenants and management staff conspired to report half of actual income and conspired to "hide" the occupancy of employed family members. They also conspired to falsify family composition in order to qualify for larger unit sizes:

Section 8 tenants, Barbara and Michael failed to report total family income resulting in an overpayment of \$14,506. Michael was related to a project manager. The Section 8 forms failed to accurately reflect Michael's total income generated from employment at a hospital and failed to reflect any income generated by Barbara through her employment at the same hospital. The Section 8 forms for 1988 reflected the total family income as \$9,073, when in actuality, the 1988 income for gross wages was \$57,785.92. In addition, the Section 8 forms incorrectly listed their family composition as consisting of Michael, Barbara and their son, Cory. When asked by the agents who Cory was, Barbara indicated that Cory was her dog, that she has no children. She could not explain how her dog appeared on the Section 8 forms as her child. Listing a child on the Section 8 forms entitles the Section 8 tenants to a deduction which is formulated into their total tenant rent payment calculation. In addition, the bedroom size allotted to a Section 8 family is based upon total family composition. In this case, the family qualified for a two bedroom apartment.

Once the schemes were crafted, the employment verification forms were falsified and forged in the management office in order to fit each scheme. There was a pattern of this particular type of fraudulent activity at varying levels for many of the tenants at the complex.

When we attempted to verify the accuracy of the forms, the employers reported that the income information was inaccurate and that the signatures were forged. The investigation involved the use of the Federal Grand Jury and Federal Search Warrants. Twenty two tenants, including four board members, were federally indicted for false statements, conspiracy and other related charges. All defendants either plead or were found guilty in 1993. Monetary losses representing subsidy overpayments, related to the indictments, were approximately \$245,000.

Following the OIG investigation, the management company was required to repay HUD over \$366,000 and was removed by HUD. A new management company was required to recertify all residents. This company's recertification process resulted in a \$400,000 annual reduction in Section 8 subsidies.

CONSPIRACY BETWEEN TENANT AND PROPERTY OWNER

My second example involves a conspiracy between a property owner and a subsidized tenant. This case was not prosecuted due to evidence and statute of limitations issues. It is however a good example of this type of scheme.

Our investigation indicated that a property owner transferred ownership of his single family property to a straw buyer just prior to the application to the public housing authority (PHA) for participation in the Section 8 program.

From 1981—1995 subsidy was paid to the straw buyer in the amount of \$74,508. The scheme was disclosed when the IRS began to investigate the straw buyer for failure to report rental income from the property to the IRS. The IRS had received a Form 1099 from the PHA disclosing payment of this rental income to the straw buyer.

In a response to the IRS, the straw buyer stated that her ownership of the subsidized property was "in name only"; that the rental income reflected on the Form 1099 was "arranged" without her knowledge and was sent by the PHA to a post office box rented in her name without her knowledge. Furthermore she stated that the subsidy checks were cashed without her knowledge or endorsement. An administrative process to recoup the overpaid subsidy is ongoing.

OTHER EXAMPLES

An investigation was initiated to determine whether Jose and Rosa, Public Housing Tenants, Manchester, NH, failed to report their income. This was a joint investigation with the Social Security Administration, Office of Inspector General. The only income claimed on their public housing applications was SS/SSI. Both Rosa and Jose worked at a variety of jobs during the period of overpayment, July 1, 1995 to November 26, 1996, and none of this income was reported on their public housing applications.

Jose was indicted on December 9, 1998 on four counts of making false statements (18 USC 1001; 3 related to SSA and 1 to HUD) and two counts of misusing Social

Security numbers (42 USC 408, SSA violation). Jose plead guilty to counts 1 (18USC1001 re: SSA) and 4 (18USC1001 re: HUD) and the other four counts were dismissed. A Federal judge sentenced him on June 30, 1999 to time served (6 months), 3 years probation, an assessment of \$200, and restitution of \$25,906.33 (\$18,650.33 to SSA and \$7,256 to HUD)

Penelope, a/k/a Penny, received Section 8 assistance in Lynn and Lexington, MA, from January 1987 until August 1998 and during that period of time Penny only claimed benefits received from Aid to Families with Dependent Children and/or an occasional part time job. Penny, using another name and a SSN of her deceased uncle, worked at a computer company from December 1989 until July 1998 and did not report this income on her Section 8 applications.

On September 13, 1999 a Criminal Complaint was filed in U.S. District Court, District of Massachusetts charging Penny with violating 18USC641, Conversion of Government Funds. On January 5, 2000 Penny waived her right to indictment and plead guilty to a one count Information charging her with violating 18USC641. On April 10, 2000 a U.S.

District Judge sentenced Penny to 6 months confinement in a halfway house, 2 years probation, \$100 special assessment, and \$37,709 in restitution.

Mr. Chairman, that concludes my remarks, and I would be pleased to answer any questions you may have.

Mr. SUNUNU. At this time, I would like to ask Ms. Crowley and Mr. Ramirez to please have a seat at the witness table.

Mr. Bentsen.

Mr. BENTSEN. Mr. Chairman, I misspoke. Secretary Ramirez was the mayor of Laredo, not the county judge of Webb County. I apologize for that. I have found, as you have probably found, that the mayor of a city is the most powerful individual you can meet. So I want to make sure I got that right.

Mr. RAMIREZ. That is OK.

Mr. SUNUNU. I appreciate Mr. Ramirez' sacrifice, giving up that power for a little bit of public service, and obviously serving the needs of those looking for decent, affordable housing.

At this time, I would be happy to yield to Mr. Ramirez for his testimony for any time that he may require.

**STATEMENT OF SAUL N. RAMIREZ, JR., DEPUTY SECRETARY,
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**

Mr. RAMIREZ. Thank you very much, Mr. Chairman, and Ranking Member Bentsen, as well as other members of the committee. I would like to submit my written testimony and its exhibits for the record, and provide you with just a summary of the key points of my testimony to move on to the question-and-answer period, if I may, Mr. Chairman.

First, let me say that it is historic for us at the Department to be able to deal with an issue such as tenant income verification. Let me just clear up a point. It is not just Section 8 that we are talking about when we are talking about tenant income verification; that we are actually talking about 4.5 million families that include residents of public housing, as well, and not just Section 8 subsidized housing.

What we have done is, we have a tool for assisting the Department in furthering our goal of targeting rental assistance only to eligible families and ensuring that each family pays the correct amount of rent. But we cannot act alone; both tenants and our partners who provide the housing have a direct responsibility for correcting and actually correctly determining the rental assistance, and HUD's new income verification program does not alter those roles.

The complexities associated with providing eligible individuals with the correct level of rental assistance are numerous. Legislation over the last couple of years has given different POAs, or private owners and agents, such as Housing Authorities, different types of wide discretion, or discretion in the delivery of rental assistance and recovery of excess rental assistance.

The differences include varied recertification policies, exclusion of specific income from rent determination calculations, the establishment of ceiling rents, and the adoption of diverse recovery policies.

Until now, the Department's past efforts to enhance the effectiveness of POAs, efforts to ensure that low-income eligible families receive the correct level of rental assistance, have been limited. However, the Department is now implementing a large-scale computer-matching income verification program to dramatically enhance the information our partners need to fulfill their income verification responsibilities.

HUD has matched tenant-reported income with Federal tax information, and has identified approximately 230,000 tenants who have underreported income. At this very moment, letters are being sent to these tenants and notifications are being sent to the POAs. HUD has worked with the tenant groups, as well as industry groups, to obtain the highest level of support for this initiative.

Also, in the interests of fairness to all parties, the Department is also addressing the overreporting of income, and will be mailing letters as part of this initiative in the near future to tenants who might not have received all the assistance to which they were entitled.

HUD's new large-scale computer-matching program achieves the delicate balance between the needs of tenants, including tenants' rights to privacy and due process, the responsibilities and work loads of our private owners and agents that are partners out there, and the ultimate goal of allocating scarce resources to eligible tenants at correct levels of rental assistance.

For several years, staff from OIG have conducted a sample of 1,000 households to estimate excess rental assistance. These estimates have ranged from—anywhere between \$417 million and \$935 million.

There are many reasons why this excess rental assistance cannot be fully recovered by HUD. Perhaps many tenants who have underreported their income will leave once they are identified, before any back rents can be collected. Recovery costs can be excessive and often fall way short of any rental assistance that could be received. Administrative costs paid by the POAs associated with tracking recoveries reduce the amount of any potential to us in the long run.

Moreover, when a tenant vacates after underreporting of income is identified, the tenant typically is replaced by another eligible family requiring assistance. And, of course, we endorse the goal of targeting rental assistance only to eligible families. However, we must point out that in cases like this, when an eligible family replaces an ineligible family, the net amount of rental assistance may not decline and may even increase. This is one reason why our program focuses on setting current rents correctly to prevent future abuses before they happen, when it is much more difficult for us to actually go out and collect after the abuses have occurred.

Through the use of our large-scale computer-matching income verification process, HUD is providing our partners, the private owners and agents, with an additional tool to help identify tenants responsible for program abuses.

In this first year of large-scale computer-matching income verification, HUD is seeking to establish a baseline by which to measure the private owners' and agents' income verification efficiency and effectiveness at the level at which the tenant program abuses can be better detected and better deterred.

With that, I would like to conclude by saying that our efforts to further enhance our abilities to create a more on-time system of verifying could probably be strengthened by seeking a stronger partnership with the Department of Health and Human Services quarterly new-hire reports, so that both the POAs and HUD can better track incomes, but that would certainly take some help on your part with additional legislation.

That concludes my summary of my written testimony, Mr. Chairman. I am prepared to answer any questions when we are done. Mr. SUNUNU. Thank you very much, Mr. Ramirez.

[The prepared statement of Mr. Ramirez follows:]

PREPARED STATEMENT OF SAUL N. RAMIREZ, DEPUTY SECRETARY, U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Thank you for allowing us this opportunity to testify on the Department's computer matching income verification efforts. For the first time in the history of public housing, we have a tool for assisting the department in furthering its goal of targeting rental assistance only to eligible families and ensuring that each family pays the correct amount of rent.

The Department acknowledges that more could be done to assure only eligible low income tenants receive HUD rental assistance and to assure that all tenants pay their fair share of rent as required by statute. We are aware—indeed we have estimated—the size of possible under-reporting of income. And, we are moving to do more by implementing an income verification program under the authorities given us by the Congress.

We are confident that our computer matching income verification efforts will improve the targeting of our scarce rental subsidy dollars, make the administration of these programs more fair, and bring in additional resources to offset the cost of reaching more of the 5.4 million low-income families who have severe housing needs.

The complexities associated with providing eligible individuals with the correct level of rental assistance are numerous. First, we cannot act alone in this area. As you know, HUD has no direct relationship with the tenants who benefit from our programs. Rather, both tenants and our partners who provide the housing each have a direct responsibility for correctly determining the rental assistance. Tenants must accurately and completely report their income to their housing managers—the Public Housing Authorities and private owners, and agents who administer our rental assistance programs. In turn, the housing providers have ultimate responsibility for verifying tenant incomes and setting the rents correctly. Our new computer matching tool is designed to dramatically improve the information our partners need to fulfill their income verification responsibilities.

In addition, comparing IRS or Social Security data with the income reported by tenants is not a straightforward calculation. Great care must be taken in drawing conclusions from the matching process because there are many reasons that IRS data, for example, might indicate that an improper underpayment is occurring when, in fact, it is not. Legislation over the years has given different housing providers wide discretion or varying directions in how they set rents, calculate tenant contributions and go about recovering excess rental assistance. These differences include exclusion of specific types of income from rent determination calculations and the establishment of rent ceilings that do not go up with increases in household income. Recent legislation has added additional variables in the form of longer intervals between recertifications for tenants under some of the Department's programs

which means that increases in a tenant's income may not be captured in a timely manner by the recertification process.

Frankly, until now the Department's past efforts to enhance the effectiveness of POAs' (Private Owner or Agent) efforts to ensure that low income-eligible families receive the correct level of rental assistance have been limited. Beginning in the mid-1980's and continuing until 1992, the Department performed several narrow matches of tenant-reported income with tenant income supplied by State wage agencies and the Office of Personnel Management to identify under-reported income and excess rental assistance. The Omnibus Budget Reconciliation Act of 1993 allowed the Department to expand its computer matching efforts to include Federal tax information provided by the Internal Revenue Service and the Social Security Administration. There are a number of laws and other requirements to adequately safeguard the privacy of this sensitive data, for example Section 6103 of the Internal Revenue Code (IRC) and the Computer Matching and Privacy Protection Act of 1988. HUD and its partners have worked diligently on these issues and continue to work on ensuring that this sensitive data remains protected. The Department used that new authority to complete computer matching initiatives focused on individual POAs and on sampling the universe of subsidized tenants to estimate over-paid rental assistance. This sampling was conducted by HUD's Office of the Inspector General with the goal of quantifying under-reported income for financial statement purposes.

The Department is now implementing a large-scale computer matching income verification program. HUD has matched tenant-report income with Federal tax information and has identified approximately 230,000 tenants who under-reported income at some fairly large thresholds levels set by the Department for this initial effort. At this very moment, letters are being sent to those tenants and notifications are being sent to all our housing authorities and landlords requesting that tenants resolve the potential discrepancies we have identified through our income-matching program. The letters to the housing providers do not disclose any income data regarding tenants, but only advise the housing provider to recertify the income of these particular tenants.

HUD has worked diligently with tenant and industry groups to obtain the highest level of support for this initiative. For example, we conducted two training sessions for our partners and stakeholders, soon to be followed by a third. We developed an online guide to help our housing providers in processing and resolving income discrepancies, and we established two call centers to handle both housing provider and tenant inquiries. We are also including a fact sheet on the income verification program with all mis-match letters that are being sent to tenants.

In the interest of fairness to all parties, the Department is also addressing over-reporting of income and will soon be mailing letters as part of this initiative in the near future to tenants who might not have received all of the assistance to which they were entitled.

This large-scale computer matching program achieves the delicate balance between the needs of tenants, including tenants' rights to privacy and due process, the responsibilities and workload of housing providers, the responsibility to assure fairness among all tenants by assuring that each pays his/her proper amount as require by statute, and the ultimate goal of allocating scarce resources to eligible tenants at correct levels of rental assistance. HUD is undertaking these efforts because of statutory requirements and because it is the right thing to do. It is important to recognize, however, that this income verification efforts is primarily designed to improve voluntary compliance by providing reasonable assurance that tenants pay the proper amount in the future. We do not expect a large windfall from collections of past underpayments. Indeed, we ask POAs to be work with tenants on an prudent payment plan as appropriate that does not overwhelm their finances.

For many years now, the Department's financial statement has reflected an estimate that tenant underpayments total some \$900 million. I think it is important to advise the Committee that this number is a gross estimate of underpayments and not a net amount that could be collected through tenant income verification efforts. For several years, staff conducted a sample of 1,000 households to estimate excess rental assistance. These estimates were developed under specific parameters and assumptions with numerous qualifying statements and have a wide statistical range \$417 million and \$935 million. It is extremely important to note that these are estimates of total excess rental assistance if all tenants reported income on a retrospective basis. It is not a total of recoverable excess rental assistance. Nor are they estimates of achievable departmental savings.

There are many reasons excess rental assistance cannot be fully recovered by HUD. First of all, our experience with a pilot income verification program indicates that approximately 30 percent of tenants who have under-reported their income will

leave once they are identified before any back rents or future higher rents can be collected. In accordance with recent statutory changes, these tenants will be replaced by eligible households who are predominately very low-income households with the end result probably being little or no significant increased returns to the housing provider. Indeed, in such instances, the rents being paid to the provider for that unit may decrease. Our experience also suggests that even where a tenant agrees to pay off back rent owed, the average length of the agreed-upon payment plan is between 5 and 7 years. Given these circumstances, we do not expect big dollar returns to result from back rent collections under the income verification effort.

Second, while HUD has advised housing providers to pursue cases of blatant fraud, the recovery costs for the run-of-the-mill tenant underpayment can be excessive, and often far exceed any rental assistance that could be recovered. These include direct costs associated with verifying excess rental assistance and recovering funds through the legal system and administrative costs associated tracking recoveries. Businesses associated with debt collection have often cited 20 percent as a reasonable estimate of debt recovery, and recent experience with tenant income verification efforts around the country have been consistent with this benchmark. For example, in a recent computer matching initiative, the Dallas Housing Authority identified 95 tenants who received excess rental assistance totaling \$350,000. The housing authority was able to establish repayment agreements with only 17 of these tenants. The repayment agreements totaled \$80,000, or about 20 percent. The \$900 million figure makes no attempt to calculate these costs of collection.

For all of these reasons—tenant move-outs, high administrative costs, the administrative payments to our partners—the amount of “excess” assistance paid to tenants cannot be easily recaptured by HUD. We believe that more is gained by looking forward than back. In the case of the Dallas Housing Authority, the agency terminated rental assistance to 42 of the 95 tenants who under-reported their incomes—freeing up units for eligible families. Through the use of large-scale computer matching income verification, HUD is providing housing providers with an additional tool to help identify tenants responsible for program abuses. In this first year of large-scale computer matching income verification, HUD is seeking to establish a baseline by which to measure housing provider’s income verification effectiveness and the level of tenant program abuses. This information will allow HUD to effectively target its future enforcement and monitoring efforts to those areas where the problem is most acute.

HUD continues to work to improve its income verification program. The Department needs your support to better serve the needs of those eligible to receive rental assistance.

Mr. SUNUNU. Ms. Crowley, welcome. Thank you for being here. I am pleased to yield to you, for testimony, whatever time you might need.

Ms. CROWLEY. Thank you.

**STATEMENT OF SHEILA CROWLEY, PRESIDENT, NATIONAL
LOW-INCOME HOUSING COALITION**

Mr. Sununu, Mr. Bentsen, I am very pleased to be here. I would like to submit my written testimony and attachments for the Record.

Mr. SUNUNU. Without objection.

Ms. CROWLEY. I am Sheila Crowley, the President of the National Low Income Housing Coalition. We are a membership organization. We represent individuals and organizations around the country that are committed to ending the affordable housing crisis and assuring decent housing and healthy neighborhoods for everyone.

Our members include nonprofit housing providers, homeless service providers, fair housing groups, State and local housing coalitions, public housing agencies, private developers and private owners, housing researchers, local and State government agencies, faith-based organizations, and residents and their organizations.

So on behalf of all our members, thank you for the opportunity to offer our perspective on the income verification issue and how it fits into the broader picture of housing affordability and the Federal response to the affordable housing crisis.

We have worked closely over the last 2 months with our partner resident organizations and HUD officials to shape the implementation of the income verification program in a manner that will achieve the objective of assuring that scarce housing assistance is used to help as many eligible families and individuals as possible, while preventing unwarranted panic and housing destabilization for thousands of public and assisted housing residents who have done nothing wrong.

Everyone, all of us, agree that people who fraudulently misreport their income in order to accrue more Federal benefits than that to which they are entitled should not be allowed to get away with it. As someone who is acutely aware of the severe limits of housing choices for poor Americans, I make no excuses for people who deliberately deprive others of badly needed housing assistance.

However, we believe that a substantial percent of the discrepancy between the rent certifications and the tax returns that have been identified in the IG's report have occurred for one of a number of legal and legitimate reasons or as the result of honest mistakes, or are rooted in errors made by Housing Authorities or private owners.

It is wrong to jump to the conclusion that lots of poor people are ripping off the system. The list of possible explanations for so-called "false positives," that is, leaseholders with legitimate discrepancies, is extensive. Mr. Ramirez has reviewed some of those.

Indeed, Congress has authorized many explanations for this discrepancy in order to reduce the disincentives for work that have been a problem in Federal housing programs. Further, if there are inaccuracies in how a tenant's share of rent is calculated that results in overpayment by the Federal Government, there are also many cases where residents are making overpayments.

As I understand it, the amount of resident overpayment has not yet been determined, so a true picture of what the overpayment problem is will emerge once both the false positives and the tenant overpayment are factored into the equation.

The concern of residents and their advocacy partners was that HUD's initial plan for implementation of the income verification program had the effect of accusing many innocent people of wrongdoing and then requiring them to prove otherwise. While there are some lingering concerns, I am happy to report that it is very accurate that HUD leadership has been very responsive to the issues raised by residents, and the income verification program has undergone significant improvements as a result.

The negotiations have necessarily slowed down the program, but we believe that taking the time to do it right is the right thing to do.

We want to solve the income discrepancy problem and eliminate the income discrepancy issue as an argument that has been raised against increased funding for housing assistance. Solving the problem in a way that causes precipitous harm to low-income residents for no valid reason is counterproductive and simply wrong.

It is equally wrong for Congress to use this income discrepancy analysis as justification for failing to address serious housing affordability problems. So I want to put this problem into perspective.

The widely accepted standard in the housing industry is that housing should cost no more than 30 percent of household income. Our analysis shows that in 1997 10.8 million very low-income households, that is, households with incomes at less than 50 percent of the area median, paid over half of their income for their housing. This is nearly 11 percent of all households in the United States. That includes 8.4 million renters and 2.4 million homeowners.

A more vivid illustration of the depth and breadth of the housing affordability crisis is our analysis of housing costs in comparison to wages in every jurisdiction in the country. We can say with assurance that nowhere in the country can a full-time minimum-wage worker afford the fair market rent for a two-bedroom rental unit. Nowhere.

The housing wage which we calculate, that is, the hourly wage one needs on a full-time basis to afford basic rental housing, ranges from \$8.02 in West Virginia to \$17.10 in Hawaii. In the Manchester, New Hampshire, metropolitan statistical area, for example, 44 percent of renter households cannot afford the two-bedroom fair market rent, and the housing wage is \$13.20 an hour. One hundred and 2 hours of minimum wage work a week is required to afford the fair market rent in the Manchester SMA.

In the Houston SMA, 40 percent of the renters cannot afford the fair market rent. The housing wage is \$11.56 an hour, and one must work 90 hours at the minimum wage in order to afford the fair market rent.

I have attached to my written testimony analysis of the housing costs and income gaps in the States that are represented by all the members of the Task Force for your review. The numbers are stark, but what does it mean to be a low-income family and have a severe housing cost burden?

One or more of the following happens: The family pays a precariously high percentage of its income for its housing, and then must scrimp on other necessities, like food or medicine; or adults in the family work two or three or more low-wage jobs and have precious little time left over to devote to family and parenting duties; or they are forced into substandard or overcrowded housing, paying rent to unscrupulous landlords who can take advantage of the severe housing shortage that poor people experience; or they simply cannot pay the rent, are threatened with eviction, gain poor credit records, and in some cases, spiral down into homelessness.

We are increasingly aware that the high rate of mobility among poor families, driven in large part by staying on the move to stay a step ahead of the eviction server, contributes to poor school performance by children who drift from one school to another and just never catch up. In the age of standardized tests as the primary indicator of academic achievement, these kids do not have a chance at success.

We all tacitly understand the centrality of stable housing in our ability to do our jobs and raise our families. If we ponder even for

a moment how we would cope if maintaining our housing was a daily struggle, we could easily understand the human dimensions of the affordable housing crisis.

We know that receipt of Federal housing assistance contributes to housing stability for formerly homeless families and is associated with success at moving from welfare to work. It is a good investment in American families.

Federal expenditures on low-income housing are woefully inadequate in the face of this challenge, and when examined in comparison—and this is an analysis the National Low Income Housing Coalition has done for some time—when we examine this in comparison to Federal expenditures to subsidize the housing of middle- and upper-income households, the lack of investment in low-income housing becomes more apparent.

In 1997, assisted housing outlays were \$26 billion, while housing tax expenditures, mostly mortgage interest deductions and property tax deductions, were \$97 billion. In constant 2000 dollars, the tax expenditure level will go to \$123 billion by 2005. It is going to take much more than fine tuning the existing low-income housing programs, which we must continue to do, to seriously make a dent in this program.

The good news is that we know how to solve the affordable housing crisis. It is not rocket science. We have a thriving, mission-driven, community-based, nonprofit housing sector that is only increasing in its capacity to provide safe, decent, and affordable housing. We believe strongly that the resources exist to intervene at the scale needed to make a difference. What we need now is creative and visionary leadership.

Thank you for your consideration of my remarks. I will be happy to answer any questions.

Mr. SUNUNU. Thank you very much, Ms. Crowley.

[The prepared statement of Ms. Crowley follows:]

PREPARED STATEMENT OF SHEILA CROWLEY, PRESIDENT, NATIONAL LOW-INCOME HOUSING COALITION

Mr. Sununu and Mr. Bentsen, I am Sheila Crowley, President of the National Low Income Housing Coalition. I would like to submit my written testimony and attachments for the record.

The National Low Income Housing Coalition is a membership organization representing individuals and organizations that are committed to ending the affordable housing crisis in America and to assuring decent housing in healthy neighborhoods for everyone. Our members include non-profit housing providers, homeless service providers, fair housing organizations, state and local housing coalitions, public housing agencies, private developers and property owners, housing researchers, local and state government agencies, faith-based organizations, and residents of public and assisted housing and their organizations. On behalf of our membership, I thank you for the opportunity to offer our perspective on the income verification issue and how it fits into the broader picture of housing affordability and the Federal response to the affordable housing crisis.

We have worked closely over the last 2 months with our partner resident organizations and HUD officials to shape the implementation of the income verification program in a manner that will achieve the objective of assuring that scarce housing assistance is used to help as many eligible families and individuals as possible, while preventing unwarranted panic and housing destabilization for thousands of public and assisted housing residents who have done nothing wrong.

Everyone agrees that people who fraudulently misreport their income in order to accrue more Federal subsidy than that to which they are entitled should not be allowed to get away with it. As someone who is acutely aware of the severe limits

of housing choices of very poor Americans, I make no excuses for people who deliberately deprive others of badly needed housing assistance.

However, we believe that a substantial percent of the discrepancy between rent certifications and tax returns that is identified in the Inspector General's report has occurred for one of a number of legal and legitimate reasons or is the result of honest mistakes or is rooted in errors on the part of housing authorities or property owners. It is wrong to jump to the conclusion that poor people are ripping off the system. The list of possible explanations for so-called "false positives," that is, leaseholders with legitimate discrepancies, is extensive. Indeed, Congress has authorized many explanations for the discrepancy to reduce the disincentives for work that have been a problem in Federal housing policy. Further, if there are inaccuracies in how tenant share of rent is calculated that results in overpayment by the Federal Government, there also are cases where residents are making overpayments. As I understand it, that amount has not yet been determined. A truer picture of the Federal overpayment problem will emerge once both the "false positives" and tenant overpayments are factored into the equation.

The concern of residents and their advocacy partners was that HUD's initial plan for implementation of the Income Verification Program had the effect of accusing many innocent people of wrongdoing and then requiring them to prove otherwise. While there are some lingering concerns, it is accurate to say that HUD leadership has been responsive to issues raised by residents and the income verification program has undergone significant improvements as a result. The negotiations have slowed down the program, but we believe that taking the time to do it right is the right thing to do and is well worth the effort.

We want to solve the income discrepancy problem and eliminate the income discrepancy issue as an argument against increased housing funding. But solving the problem in a way that causes precipitous harm to low income residents for no valid reason is counterproductive and simply wrong. It is equally wrong for Congress to use this income discrepancy analysis as justification for failing to seriously address the affordable housing crisis of low income Americans. Let's put this problem into perspective.

The widely accepted standard in the housing industry is that housing should cost no more than 30 percent of household income. Our analysis shows that in 1997, 10.8 million very low income households (that is, households with income less than 50 percent of the area median) paid over half of their income for their housing. This is over 11 percent of all households in the United States and includes 6.4 million renter households and 4.4 million homeowners.

A more vivid illustration of the depth and breadth of the affordable housing crisis is our analysis of housing costs in comparison to wages in every jurisdiction in the country. We can say with assurance that nowhere in the country can a full time minimum wage worker afford the Fair Market Rent for a two bedroom rental unit. The housing wage, that is, the hourly wage one needs on a full time basis to afford basic rental housing, ranges from \$8.02 in West Virginia to \$17.01 in Hawaii. In the Manchester, NH, Metropolitan Statistical Area, 44 percent of the renter households cannot afford the two bedroom Fair Market Rent and the housing wage is \$13.02. One hundred and 1 hours of minimum wage work a week is required to afford the Fair Market Rent. In the Houston, TX, MSA, 40 percent of renters cannot afford the Fair Market Rent, the housing wage is \$11.56, and one must work 90 hours a week at minimum wage to afford a basic rental unit. I have attached to my written testimony analysis of the housing costs and income gap for the states of each of the members of the task force. I also have provided a copy of the complete jurisdiction by jurisdiction analysis for your use.

The numbers are stark. But what does it mean to be a low income family and have a severe housing cost burden? One or more of the following happens. The family pays a precariously high percentage of its income for its housing and must scrimp on other necessities like food and medicine. Or the adults in the family work two, three, or more low wage jobs and have precious little time left over to devote to family and parenting responsibilities. Or they are forced into substandard or overcrowded housing, paying rent to unscrupulous landlords who can take advantage of the severe housing shortage affordable for the poor. Or they simply cannot pay the rent and are threatened with eviction, gain poor credit records, and in some cases, spiral down into homelessness.

We are increasingly aware that the high rate of mobility among poor families, driven in large part by staying on the move to stay a step ahead of the eviction server, contributes to poor school performance by children who drift from one school to another and never catch up. In the age of standardized tests as the primary indicator of academic achievement, these kids do not have a chance at success. We all tacitly understand the centrality of stable housing in our ability to do our jobs and

raise our families. If we ponder even for a moment how we would cope if maintaining our housing was a daily struggle, we can easily understand the human dimensions of the affordable housing crisis.

We know that receipt of Federal housing assistance contributes to housing stability for formerly homeless families and is associated with success at moving from welfare to work. It is a good investment in American families.

Federal expenditures on low income housing are woefully inadequate in the face of this challenge. And when examined in comparison to Federal expenditures to subsidize the housing of middle and upper income households, the lack of investment in low income housing becomes even clearer. In 1997, assisted housing outlays were \$26 billion, while housing tax expenditures (mortgage interest and property tax deductions) were \$97 billion. In constant 2000 dollars, the tax expenditure level will go to \$123 billion by 2005.

It will take much more than fine-tuning existing low income housing programs, which we must continue to do, to seriously make a dent in this problem. The good news is that we know how to do solve the affordable housing crisis. We have a thriving mission-driven, community-based, non-profit housing sector that is continually increasing its capacity to provide safe, decent, and affordable housing. We believe strongly that the resources in our country to intervene at the scale needed to make a difference. What we need now is the creative and visionary leadership to make it happen.

Thank for your consideration of my remarks.

Mr. SUNUNU. I would like to begin the questioning now, touching on a few of the points that you raised with Mr. Ramirez.

First, you raised, I think, a very important concern about false positives, about trying to approach the verification process carefully.

There is no question when you have the number of letters that are going out, the number of discrepancies in income reporting that we have, there are going to be some legitimate reasons that both of you touched on in your testimony for the problem.

I think we can minimize those issues by putting in place a reasonable threshold for income discrepancy. We are not talking about a difference of \$100 or \$500 or even \$1,000, as I understand it, in the income that is reported. It is at a higher threshold than that.

Mr. Ramirez, can you review for instance what those thresholds are?

Mr. RAMIREZ. Yes. We have actually two thresholds. One is for the multifamily Section 8 subsidized housing, which is a \$4,000 threshold. Then we have an \$8,000 threshold for public housing.

Mr. SUNUNU. For annual income?

Mr. RAMIREZ. Yes, sir, annual income.

Mr. SUNUNU. In your testimony on March 8, you suggested that there were, I think, 260,000 letters that were about to go out. In your testimony today, you mentioned 230,000 letters. It is a difference of about 10 percent. I just want to be clear for the record; how many letters are being mailed out today?

Mr. RAMIREZ. We have two family incomes, so the number has shrunk in matching up addresses and individuals in those incomes. We anticipate that that will be the case in a bigger mailing that will take place after working with the different industry groups, as it relates to the overpayments that will be discovered as we run the analysis, as well as the notification to all residents that are currently receiving some sort of subsidy that—in their verification recertification process, we are advising them, in the same form that we have advised by way of information and handout attached to these letters, what kind of income they need to take with them as they get recertified for the following year, sir.

Mr. SUNUNU. In your testimony, you said those letters are being sent as we speak. How many letters are being sent out this week?

Mr. RAMIREZ. I couldn't tell you exactly how many this week. It is a massive mailing of 230,000.

Mr. SUNUNU. When is the goal for having completed the entire mailing?

Mr. RAMIREZ. We should be done mailing all of these letters within the next 2 weeks or so, sir.

Mr. SUNUNU. Two weeks? That is the initial—

Mr. RAMIREZ. This is the initial match of discrepancies for underreporting income as it relates to the entire population.

Mr. SUNUNU. That is a total of 230,000 notifications?

Mr. RAMIREZ. Approximately, yes, sir.

Mr. SUNUNU. You talked about the concern of those that may be overreporting income, and therefore—and Ms. Crowley touched on that, as well. You didn't give an estimate of the number of cases of overreporting.

Has a similar IRS match been done to try to quantify the number?

Mr. RAMIREZ. Yes. We are currently working on that match. But let me, if I may, Mr. Chairman, just bring some perspective to where we are and where we were.

We have over the last several years depended on the Inspector General's review of a random sample of 1,000 residents. We have now gone to matching the entire population that is receiving some sort of benefit from public housing or subsidized housing.

We have worked very hard to reduce the false positive percentage on the underreporting process, and we feel comfortable in saying that we are running at about 20 percent in comparison to perhaps up to maybe as much as 50 percent in the old sampling method; and we are currently calibrating the false positives based on the thresholds that we have for the overpayment.

We run a similar risk in estimating an overpayment, if we are not careful, in first getting these false positives, as small a number as it can be, because you can imagine someone receiving a letter saying, you have something due you, and they go in and they then find out that they don't have anything due them as a result of us advising them that they have overpaid.

So we are in the process of doing that. We have gone through two runs of getting it. The number has reduced from about 55 percent to about 30 right now. We are not comfortable yet with where we are on the false positives. We are running the systems to see if we can further reduce that.

We are also working with the different industry groups to get together with them in the near future on these notifications and to report out to them.

Mr. SUNUNU. Ms. Crowley, I don't want to put you on the spot, but in the March testimony, Mr. Ramirez talked about trying to touch base with industry groups and tenant groups.

My question is, to what extent have you or your members participated in discussions with HUD, and what more do you think that HUD can do to make sure that the process they are undertaking is fair?

Ms. CROWLEY. I would say that our interactions with HUD officials have been extensive. My experience was that it did take getting it to the attention of the very highest levels to get us heard, but once that happened, then we were heard loud and clear. So there have been a series of meetings and discussions about that.

There are, as I said, lingering concerns. It is not 100 percent resolved. There are—my concern, my more than concern at this point, is about how it is going to play out at the local level and how we are going to assure that what it is that we have agreed to at this level actually happens there.

That is the tricky part, because if everything unfolds the way we have been told it will, then it should happen in a fair kind of way. But we are talking about the behavior of a large number of different people who are going to get communications through several layers, and there is always the danger of distorted communication.

So we will be very alert to how it is happening on the ground with our members and be prepared to advocate at that level as well.

Mr. SUNUNU. We don't need to take Mr. Ramirez to task for not including you?

Ms. CROWLEY. No.

Mr. SUNUNU. Good.

A few final questions about the scope of the problem, because there are two large issues here. One is the financial issue, which is estimating the size of the underpayments. That is important because the demand for the services are high.

You gave a very stark picture of that, Ms. Crowley. If we take the estimate of \$935 million that has been presented to the Task Force by HUD and the Inspector General's Office, that does translate into 150,000 or so certificates, new certificates, which is even more than is being requested by the administration this year. So it is a significant number.

If I can finish, the other side of the problem is that if there is a case of someone who is ineligible receiving housing, then that means someone is on the waiting list, obviously, who is in need that would otherwise qualify for a slot. Of course, it is worth emphasizing that the vast majority of all of the tenants here are completely honest, law-abiding, and deserving of the services.

Even if you take the full figure of \$935 million—I think you used the total figure of 26 million for low-income housing—but just at the Federal level, if you look at a figure of 15½ million for the certificate program, it is well under 10 percent. It is probably—that is roughly 7 percent. So at the absolute worst, 93 or 94 percent of the people in this are not even matched, so there is not an issue there.

So there are two sides to the problem. The specific question I have Mr. Ramirez, is the gross figure of \$935 million—you gave an estimate of \$400 million to \$935 million—that is an annual loss; is that correct?

Mr. RAMIREZ. Well, that is the estimate that comes out of the methodology that was recommended to us to employ in partnership with the Inspector General, sampling only 1,000 of—after taking dual incomes, of about 4½ million families. So it is a broad estimate or a big estimate—

Mr. SUNUNU. Based on a sample of 1,000?

Mr. RAMIREZ. Yes.

The other thing is, because of some of the reasons I cited as to the difficulty in recapturing these funds, as a result of folks moving away and other activities, that the more realistic estimate that OMB has come out with in the budget we believe is closer to accurate, which is about \$80 million. That is taking into consideration not just the turnaround that may occur, but also remember that there is that category of overpayments.

It is very preliminary for me to make any real estimate on that, but based even on a 50 percent false positive, the number is quite substantial on the overpayment side, as well.

So our goal in the end, Mr. Chairman, is to try to get folks qualified at the front end to avoid the back-end discrepancies that could lead to any sort of waste, fraud, and abuse that we know is occurring, as was highlighted by the Office of Inspector General.

Mr. SUNUNU. Ms. Crowley.

Ms. CROWLEY. I do not pretend to understand all the intricacies of these numbers, but my understanding—and Mr. Ramirez, correct me if I'm wrong—is that the 935 million is the first cut at the analysis, and it is before all the false positives have been cleaned out.

So once—as I said, to get to the true overpayment, you have to screen out all the false positives and you have to do the overpayment, and then you will get to what that real number is. So it is going to be something substantially less than that.

So the 230,000 letters that are going out, the total of that does not get up to \$935 million because that analysis was based on sort of a gross analysis at that point.

Mr. RAMIREZ. Yes.

Ms. CROWLEY. So that has to be further refined to get at some understanding of what the true number is.

Mr. SUNUNU. Thank you.

Mr. RAMIREZ. May I just say—real quick, just to say that what we have done is that this year, for the first time ever, we will have an accurate baseline of what that number really is, instead of these estimates that are based on a small population of a greater population.

Mr. SUNUNU. That is the importance of keeping to your time line with regard to the issuance of the first 230,000?

Mr. RAMIREZ. Yes. On that one, working with the industry, because that is also an important piece of correspondence that needs to go out, we would anticipate that we could finish up our work on that letter and what we need to refine in our estimates to get that letter out on the overpayment side by June 30, Mr. Chairman.

Mr. SUNUNU. Thank you.

Mr. Bentsen.

Mr. BENTSEN. Thank you, Mr. Chairman. Mr. Chairman, let me talk a little bit about the methodology, and then I want to talk a little bit about the broader program.

Again, in the methodology, this is based upon a—the \$935 million figure is based upon a random sample of 1,000 households, so it is a sampling-type issue which has questions of accuracy, and then is extrapolated out against the entire program; but false

positives and overpayments by tenants are not netted out, so it is still a rather nebulous figure that is out there.

The 230,000 notices that you are sending out, that is not net false positives?

Mr. RAMIREZ. It is—we have 90 days after they get sent out. We anticipate there may be as high as 20 percent false positives on the 230,000. That is just based on local policy for exemptions of certain incomes. Again, because of the way the law is now structured, there is a great deal of discretion that is given at the local level.

The difference between the old methodology and what we are employing now is that there is a complete match of income and Social Security, and based on that and the tiers we have established, we have narrowed down that universe to just 230,000 where there are these discrepancies.

Mr. BENTSEN. Can the IG's Office tell me, in these cases that have been going on for some time—this is a 60-year-old program, in effect, and a lot of your cases go back to the early 1980's, and have gone on for periods of time, unacceptable periods of time. In the IG's study, if you could speak to that, is there a preponderance of underpayment by tenants in the high-dollar range or the low-dollar range, and is it \$10 and \$20 a month, just outright fraud, or several thousand dollars?

Secondly, is there a preponderance of individual tenant abuse through PHAs, or is it with respect to third-party private-sector operators?

Mr. SCHUSTER. Sir, basically, as criminal investigators in our little world, we are just dealing with what we would call prosecutable criminal cases, so we would not get into the whole universe. We could not answer that.

Mr. BENTSEN. On that issue, Mr. Chairman, I will submit for the record from the IG's Office—I would be interested to know where the mean is and where they come down.

Let me ask this. From an investigator standpoint, the way I understand this, reading through this, Congress in 1993 adopted a law allowing, in the famous Omnibus Budget Reconciliation Act of 1993—one of the many things that did not get talked about in the 1994 elections was a change in the law that allowed for the use of IRS data for income verification and match; I believe that is correct.

From the IG's perspective and investigators' perspective, do you believe this new income verification will be a sufficient tool in trying to root out either outright fraud or just inadvertent under-reporting of income?

Mr. SCHUSTER. Once again, I don't know, as a Special Agent, whether I am equipped to answer that particular question. I think it would give you maybe an idea. But once again, dealing with our resources and our priorities and what the U.S. Attorney's offices are, in a sense dictating to us, we probably would not get into those specific areas unless we had proper resources.

Mr. BENTSEN. Mr. Carolan.

Mr. CAROLAN. I would say that it is very helpful, and some of the things that we talked about around the table, in some of the testimony, as long as this information is timely, where it is not old information, as long as it is accurate, apples to apples, and as long

as we are all sensitive to the individual circumstances, the case-by-case family—

Mr. SUNUNU. If the gentleman would yield for a moment—

Mr. BENTSEN. Yes.

Mr. SUNUNU. Specifically, would an income matching program, as we are beginning to implement here, would that have assisted you in the Charlestown case? Would that have uncovered the income discrepancies that were prevalent in that case?

Mr. CAROLAN. I would assume that it may have pointed to a pattern, multiple cases at a particular site, which would have led us to look at something other than individual tenant fraud; that there had to be something there that was a common denominator. So I think, like I said, it would be helpful.

We have to remember, most of the cases we look at are the egregious ones. They are multiple years of underreporting of income, resulting in multiple years of overpayments, usually. They have to meet the test of the prosecutor.

We also look at ability to make restitution.

Mr. BENTSEN. Just a couple more questions. Let me ask, let me look at this from a broader perspective in the income verification.

As I understand how the Section 8 assisted housing program works, and has for the last long period of time, it has somewhat devolved from the Federal Government to local partners which—we actually expanded their authority through H.R. 2, or whatever the public law is now, back in 1998, and third-party contractors to the government who operate project-based housing and the Section 8 assistance is made to those entities.

They are required to verify the income and have that approved by a third party, and that is what the Federal Government has relied on in the past, for the last 60 years, I guess.

The income verification program, if I understand it, which is the first of its kind in HUD, came out of the 1993 act. It effectively is designed to try and match W-2, W-3 data of every tenant of record in the program against the data that is provided by the PHA, that they collect, or the third-party Acme Project-Based Housing Corps, whatever third party, to see whether that matches up.

So this will be the first time ever that HUD is basically looking over the shoulder of your clients in the field; is that correct?

Mr. RAMIREZ. It is correct on the income verification side.

But let me say, it is one more component of our overall 20-20 management reform. We have always taken the other side of oversight seriously, as well, and have reshaped the way we go about inspecting the Housing Authorities and the project-based owners for housing quality standards, for financial stability, for tenant satisfaction, and for management, as well, through our real estate assessment system and center.

So, yes, it is the first time we have ever done that, and it is a baseline that we are establishing so that Congress then can have a more accurate account of underpayment, overpayment, and the real number that is out there, and to assist you in providing the funding that we need to provide affordable housing.

Mr. BENTSEN. To the IG's, and then I will finish up, and I am going to apologize, because I am going to have to leave after that;

there is another meeting I was supposed to start chairing 15 minutes ago.

In your history of 28 years—and I don't know how long, Mr. Schuster, you have been there—is this a problem that you have seen throughout your career with HUD in the Section 8 public housing; or is this a problem that has just sort of started to occur in recent years?

Second of all—and you may not know the answer to this—but how would you compare the potential loss to the program in this with the old FHA coinsurance program that was designed to create affordable housing, multifamily housing, primarily in the late 1970's, but also in the 1980's? I assume you all dealt with some of those issues, as well.

Mr. SCHUSTER. I will start off first by saying, you know, is there a history of it? As long as I have been a criminal investigator, which is over 30 years, there have been people who have been out to defraud the system. So I have always—I have never had to worry about work. I have always had a lot of work. This has been continually.

I worked with ATF, I worked with Health and Human Services IG, and for the last 11 years I have worked for HUD IG. There has been—there has been a problem. There are people who are out to defraud the program.

As I said, we are dealing with a small number of people who are really ripping off the system. That is the only way to say it. There is no doubt that this is not by accident. They have a plan; they are conspiring to do this.

Mr. BENTSEN. This is not just an innocent, "I didn't report—I didn't realize that my minimum wage went up and I was getting more money," or something?

Mr. SCHUSTER. Right. This is not an accident. That is why in my statement I wanted to point out that there are situations where people are not trying to rip off the system, they are trying to do for family, or whatever. They might be actually, in a sense, defrauding the system, but it is not something that, you know, we would be concerned about in our particular responsibilities.

So I think, yes, there have always been problems. To what extent, we have no way of knowing. We don't get into that. Probably our audit side of the House has made more studies of that and may be more able to respond.

Mr. BENTSEN. Thank you.

Mr. Carolan.

Mr. CAROLAN. I would agree. We presented the first cases in my district, in the district of Massachusetts, in the 1970's, so I believe the problem is there and continues to be there.

But again, we look at the most egregious cases. We have a lot of criteria where we test them, like ability to make restitution, multiple years of the problem with one individual or family. So there are a lot of ways we screen out those that do not meet the standards, and refer them back to the HUD program people or to the providers for administrative recovery, to look at it and see whether they can recover.

As far as the second part of your question, the insurance programs, back to the 236 program and other programs, the same type

of things were happening. We had falsification. As my associate said, there are people out there that are going to beat the system, and will find a way to try to beat the matching and everything else. I think it did exist back in some of those programs, also.

Mr. BENTSEN. Thank you, Mr. Chairman.

Mr. SUNUNU. Thank you, Mr. Bentsen.

Mr. Miller.

Mr. MILLER. Thank you, Mr. Chairman.

Deputy Secretary Ramirez, we discussed preventing waste, fraud, and abuse from happening in the future. You briefly said how the law is now structured.

Mr. RAMIREZ. Yes.

Mr. MILLER. That raised a question.

Is there anything Congress can do to help you?

Mr. RAMIREZ. Yes, sir. We believe that to bring the accuracy of the system to an even more on-time basis—again, to bring a little perspective to the situation—the 1,000 number sampling that came out of this population of 4.5 million is based the same as we base our current verification process, which is prior year returns. So a year has gone by before we can actually match up and see if there was any discrepancy in what was certified and what income was actually reported.

If we were to be able to get legislative relief to work in greater cooperation with HHS, and in particular, for the 941 quarterly reports on new hires, that would help enhance the ability of the private owners or operators, as well as agents and our agency, to be more on time in capturing any discrepancies in recertification and underreporting.

Mr. MILLER. Has anybody asked for that legislative relief to date?

Mr. RAMIREZ. Consider it asked, sir.

Mr. MILLER. OK. I would like to follow up after the hearing with you on that.

Mr. RAMIREZ. We will be—

Mr. MILLER. If that has not occurred and there is something we can do to help you, we need to do that.

You basically talked about the DC pilot program and the new verification program we will be using in the future.

Can you give me just a brief overview of the difference, if you have not already done that? I know I missed part of the hearing.

Mr. RAMIREZ. The difference between the pilot and what we are doing now?

Mr. MILLER. The DC pilot program and the new verification program you are going to be using now.

Mr. RAMIREZ. What we have done—the biggest difference is that the letter, as Ms. Crowley mentioned earlier, what was sent in our pilot to the District of Columbia residents was a little more menacing than it needed to be. It was pretty bureaucratic, and had not really been vetted at the highest levels to be able to be a little more descriptive and clear in the objective of sending this letter and, also, in outlining the facts as to the type of incomes that qualified, did not qualify, what kind of rights tenants had in pursuing their—any remedial action they felt they needed to take.

I would like to acknowledge the great work and cooperation that we got, not just from Ms. Crowley, but, as well, other industry groups both on the private owners' side, the agents' side, through the Housing Authorities, and the tenants, which I thought was somewhat historic, to be able to get all these groups together around a table for the first time.

This was the issue that brought it. We have worked together since then. We will continue.

We now have a couple of issues that we need to resolve together, and now that we have gotten into a rhythm of exchanging documentation and corrections in language and whatnot, we need to clear up the correspondence that is going out to the agents and operators, advising them of what they need to do as a result of people receiving—the tenants having received these letters for over- or underpayments.

We have the letter for overpayment that we will be working on, and then a bigger mailing that will just lay out what qualifies, what does not qualify, and remedies that a tenant can pursue that will be going out.

Again, let me reiterate for the record that our notices—the way the mail works, and everything else, for underpayments, June 30, we are hoping to work with the industry to have the overpayment discussion done by that time as well, to get those letters out and proceed accordingly, and be able to come back with a more defined—because there is a 90-day period; sometime by December 1 this process should be concluded for this first cycle.

Mr. MILLER. Knowing that you could never eliminate all the waste, fraud, and abuse that might exist within any system, based on what you are proposing—and you are moving forward now—do you believe the next time you come before Congress, you will have fairly much resolved this problem?

Mr. RAMIREZ. We will have the baseline and an accurate number, gross number, of what we believe would be underreporting on the part of tenants.

We need to then, at that point, factor, as we believe is correct, the probability of being able to recapture those funds, and up to what level, without it becoming overly costly for this collection.

Finally, let me say that what we will have been able to accomplish, which is our goal in this process, is to be able to have eligible residents that are sitting on waiting lists, that have doubled over the last year and a half, into these units, and ineligible residents out of those units; and we feel that in that regard we will be able to meet that particular area of our mission.

I cannot say that we will be meeting our mission as completely as we should. There were some very accurate figures brought out by Ms. Crowley as to the real need that is out there. There are additional resources we would need to be able to create affordable housing opportunities.

Mr. MILLER. As a type of an aside, are you involved in any way with down-payment assistance with nonprofits?

Mr. RAMIREZ. Yes, sir.

Mr. MILLER. One problem we have noticed in the last few years, and I don't know why it is—I have dealt with a couple. Some I have looked at and I shake my head; some are doing a good job,

but it seems like there is vague and ambiguous language that HUD keeps putting out. I have written letters to try to get this resolved. We have been effective in every instance.

It seems like there is a problem with HUD about putting out vague language, whether certain nonprofits' loans are going to be approved in the future, with no data to say that they are not going to be, no scheduled hearings to say there is going to be an overview. I am wondering why that continues to happen. It is becoming a problem.

There are some out there that are providing down-payment assistance for groups that are not using any government funds and are very successful. It seems like they are repeatedly being impacted in some fashion by HUD. It does not make any sense to me.

Mr. RAMIREZ. There are two issues there that you have touched on, Congressman.

The first issue is that when we put out a regulation to create the facilitation of the delivery of whatever programs we have, or activities that we have jurisdiction over, we purposely try to make sure that this regulation is as flexible and as open as possible to create as much local flexibility as possible. That may be interpreted as ambiguity, perhaps, in some instances.

We believe that it is better for us to refine it than to come out with something that is—that will, in essence, lock communities and not-for-profits into doing things a certain way, and we have learned that the cookie-cutter approach does not work.

The other side of the equation is that we do have some very successful not-for-profits that do not use any government funds that provide down-payment assistance to low- and moderate-income families for home ownership.

Our concern there, and we are working with the different groups, is that there are—there is a negative equity that is built as a result of what is brought in at the front end of these loans that, in essence, creates a bigger burden through the life of a loan for these low- and moderate-income families.

Mr. MILLER. Through inflated appraisals or such?

Mr. RAMIREZ. Correct.

So what we have been doing is, we have been talking to both the ones that are effective in doing this and have worked to monitor their activity to make sure that this does not occur, as well as those that are quite lax in dealing with it.

We have to step in and make sure that in the end what we are doing is that we are truly creating the opportunity for a family to realize the American dream and not end up living the American nightmare.

Mr. MILLER. One thing—and I think it is really important, because we have gone over this, I have done this too many times in the last year with nonprofits—that HUD should be a little more sensitive.

There are some that there is absolutely no—even suggestion that they are inflating appraisals, they are dealing with approved lenders who are providing quality appraisals; and yet some of the language comes out that implies that at a future date this specific nonprofit might not be an approved HUD agent to deal with those types of loans.

I would ask that you try to create more sensitivity. I understand that you try to deal with the problem, but in some cases, a problem is being created where there is none. I have not tried to be an advocate of any one specific group, but when we come back and approach HUD, we find no reason at all that they should be using language like that, and they change it. It just causes some problems and hurts some people who have tried to take advantage of these down-payment assistance programs, because their loan has not been recorded or has been delayed for some reason. It should not have been.

If you can just do that, I will appreciate it.

Mr. RAMIREZ. Yes, sir. We will get back to you with a response. [The information referred to follows:]

[RESPONSE TO TASK FORCE PENDING]

Mr. SUNUNU. Mr. Clement.

Mr. CLEMENT. Thank you, Mr. Chairman, Mr. Secretary, and the panel. It is a pleasure to have you here today.

Let me ask you this question, first. What percentage of households eligible for Federal rental subsidies actually get help?

Ms. CROWLEY. It is about one-third. That is the number that is most frequently cited; that if you defined the eligibility under what the law allows now and then you look at how many are actually getting assistance, it is about one-third.

There are other ways of looking at the number. Our number is, as I said, 10.8 million households with a severe housing cost burden who are low-income people. That includes both homeowners and renters. HUD's analysis is that the worst-case housing needs is 5.4 million households. Those are renters who receive no assistance and have a variety of housing problems.

Mr. CLEMENT. Of course, we all, Democrats and Republicans, want to stop waste and fraud. We should do everything we can to stop Federal payments to families who are not eligible.

If you assume that a \$935 million overestimate is accurate, and every penny went to eligible families, how many more families would be covered?

Mr. RAMIREZ. About 150,000. But we don't agree with that assumption, Congressman.

Mr. CLEMENT. I wish you would expand on that.

Mr. RAMIREZ. As we went into this subject earlier in our testimony and in earlier questioning, the \$935 million figure that is out there is based on a small sampling of—I hate to sound repetitive, but just to be able to clear things up, in the past, what we have done is that we would take a sampling of 1,000 residents in a total population of about 4.5 million. Then from there, the methodology that was employed would extrapolate to that number that you see up there.

What we are doing now is that we have actually matched up these households through tax returns, Social Security benefits that are paid, and their residency, and set thresholds as to whether they are underreporting or not. We have gotten down to the point of refining that, and have identified, in that universe of about 4.5 million, 230,000 households that have technically underreported.

I need to add that within that number, because of the broad discretion that has been provided to local Housing Authorities and operators, that they do have discretion as to what they would allow or disallow as eligible income. So we are going to be going through that process of getting down to the final number.

The other circumstance that we run into is that there are situations where people overpay in the program. We are currently matching up income and payments that get to a number that would reflect, as closely as possible, those amounts that are being overpaid, to advise those residents as well that they need to go in and clear up those overpayments, so they can actually be getting what they are entitled to.

The \$935 million number that is out there is a number that is—that is, we believe, quite inaccurate in reflecting a true picture of what actually exists in the overpayment category.

Once we have—because this year is a baseline year, Congressman, for establishing that number, that baseline then is also impacted by certain situations, again allowable exceptions plus collection difficulties that occur, to get to a real number of actual recovery of any overpayments that are out there.

Our goal in the end, by establishing this system, is to be able to better qualify at the inception the residents, number one; and number two, that when we do find these discrepancies, and someone is living in a unit that is not qualified to live in that unit, that that unit then be vacated by that individual, or that family, and that it now be occupied by someone that is eligible.

Mr. BENTSEN. Mr. Secretary, there is no doubt in your mind there is a huge unmet need that exists?

Mr. RAMIREZ. I would further add that even after getting to this number, we would not be making a dent in the need.

It was earlier stated that we have over 11 million American families out there that—or close to 11 million that are out there that are suffering conditions of housing where they are paying more than 50 percent of their income in rent. So it is an unacceptable condition that exists.

Even with the current request that the President has proposed of 120,000 additional vouchers, it is a baby step in trying to resolve this problem, but a step that we feel is absolutely necessary, because it is an escalating problem.

Mr. CLEMENT. Mr. Secretary, these numbers up here on this chart, you don't really accept those numbers as true or accurate numbers?

Mr. RAMIREZ. That is correct. We accept those as rough estimates based on the methodology that has been employed in partnership with the figure of the Department of Housing and Urban Development to come up with a number that needs to be included in our financial statements.

Mr. CLEMENT. All right. Thank you.

Mr. SUNUNU. Thank you very much, Mr. Clement.

I have just a few final questions.

Mr. Ramirez, has the Department shared the match list of the 230,000 tenants that have a significant underreporting of income with the Inspector General's Office in order to try to identify pat-

terns that might exist there that would be worthy of their investigation?

Mr. RAMIREZ. No, sir. It is premature for us to share that list with anybody, first off, because it has not gone through the cycle of it being exempted or not.

Secondly, it is—the private operators and agents, such as the Housing Authorities, it is up to them to assume the principal responsibility in rectifying any differences in underreporting.

So the principal obligation of having this reported to the Inspectors General throughout the country that serve the Department would be based, more than likely, on referrals from the Housing Authorities, agents, or private owners, sir.

Mr. SUNUNU. As this process moves forward, however, is it your intention to share information that HUD might develop regarding patterns in income underreporting, or egregious cases of income underreporting, to the Office of Inspector General?

Mr. RAMIREZ. We are prepared to share information that would not violate the Privacy Act and the method in which we were able to collect this information, and certainly we are not going to be the ones initially to make the call as to whether there is fraud or not occurring.

Inspectors General, as has been my experience through the years that I have been with the Department now—they have the run of the room. If they so wish to come in and audit these numbers, they are certainly welcome to.

Mr. SUNUNU. There is nothing that would prevent them statutorily from reviewing the income underreporting information that you might generate?

Mr. RAMIREZ. That would be a question that I would suggest be posed to the inspectors.

Mr. SUNUNU. Mr. Carolan, is there anything that would prevent you from reviewing information to identify patterns or egregious cases of underreporting that might be worthy of investigation?

Mr. CAROLAN. I don't believe there would be any barrier.

Mr. SUNUNU. Thank you.

A final question: Mr. Ramirez, we have talked a lot about this process, which I think is important. Mr. Clement mentioned the value of determining whether or not \$935 million is recoverable, identifying what is recoverable. Ms. Crowley talked about looking at income overreporting as well.

These are all issues, though, at the end of the process, where we are trying to verify after the fact and match actual income to what was initially reported.

What has been done to deal with the front end of the process, to improve the internal control systems of HUD so that the Housing Authorities can better determine tenant income up front when they first apply, or when they are recertified?

Mr. RAMIREZ. One of the things, because of the discretion that is written into the law to create greater flexibility at the State level and local level, there have been some States that have been proactive in trying to get more on-time information as it relates to wages. So there are State wage reports that now go to Housing Authorities, but it is on a State-by-State basis. That is the only way it could be done.

Mr. SUNUNU. How many States do that?

Mr. RAMIREZ. I think there are three—we are actually using two right now. Two.

Mr. SUNUNU. Is that something that you are encouraging States to do?

Mr. RAMIREZ. Absolutely, sir. But that is, again, at their discretion.

Mr. SUNUNU. Thank you very much.

Thank you to all the witnesses for your testimony today. This is a significant problem, both in terms of the finances, but also in terms of the fairness of the program.

It is important that these programs are viewed by both the public that does not benefit from the program and those that are in need, that they are fair, in order to ensure the credibility of HUD that has a number of other programs that it uses to reach out to communities with, and the credibility of the Federal Government that is trying to oversee these and other programs efficiently and effectively.

Your testimony has helped us a great deal here today. Thank you for your time.

The committee is adjourned.

[Whereupon, at 11:41 a.m., the Task Force was adjourned.]